

STATE CONTROLLER'S OFFICE
PERSONNEL/PAYROLL SERVICES DIVISION
P. O. BOX 942850
Sacramento, CA 94250-5878

DATE: November 9, 2018

PAYROLL LETTER # 18-022

TO: All Agencies/Campuses in the Uniform State Payroll System

FROM: Marissa Revelino, Chief
Personnel/Payroll Services Division

RE: SPECIAL ACCOUNTING PERIOD FOR NON-CASH FRINGE BENEFITS

The Internal Revenue Service (IRS) allows employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in previous calendar year as income in the following tax year. The SAP helps to reduce late reporting and the issuance of corrected Forms W-2. This also results in employees filing fewer amended income tax returns.

For employees receiving non-cash values in November 2018, the Personnel/Payroll Services Division (PPSD) must receive the Form STD. 676V by December 3, 2018. This will ensure the taxable gross and Social Security/Medicare amounts for non-cash values will be on the 2018 Form W-2. If received after December 3, 2018, a corrected W-2 will be issued.

GENERAL INFORMATION

This letter provides reporting instructions for **non-cash**, taxable fringe benefit values that employees receive in December 2018. It also includes a sample of an employee notification letter to employees regarding SAP provisions, (**Payroll Procedures Manual (PPM) Section N-175 and Payroll Letter # 18-019 for 2018 reporting cut-off dates**).

SPECIAL REPORTING INSTRUCTIONS

Complete the **Form STD. 676V Non-USPS Adjustment Request – Values (Fringe Benefit/Employee Business Expense)** using PPM Section N-172.2 procedures. When completing column “9” (issue date), **enter 01/01/19 for all non-cash values that employees receive during December 2018**. The 2019 Form W-2 will reflect these non-cash values.

NOTE: Fringe benefits reported in November will not have Federal and State income taxes withheld from the December warrant. See PPM Section Z Attachment N-2 for additional information on the fringe benefit processing under the SAP.

MANDATORY EMPLOYEE NOTIFICATION

The IRS **requires** employers (agencies and campuses) to:

- 1) Notify affected employees of SAP reporting provisions;

- 2) Instruct employees to use the same SAP (for value based benefits received December 2017 through November 2018) when filing personal income tax returns; and
- 3) Notify employees of the **SAP no sooner than the receipt of the last paycheck of the calendar year and no later than release of the employee's W-2.**

NOTE: Agencies/Campuses are encouraged to use the attached sample notification letter to fulfill the mandated reporting requirements.

REMINDER

The State's goal is that all employers (agencies and campuses) comply with employment tax regulations for federal and state. This requires each agency or campus to report Fringe Benefits/Employee Business Expenses (FB/EBEs) on a timely, accurate and comprehensive basis. Accurate reporting means proper completion of reporting documents. Comprehensive reporting means that your agency or campus reports all applicable FB/EBEs that are provided to employees, as defined in the PPM Section N-120 – 175 and corresponding Payroll Letters. By complying with these requirements, your agency or campus will prevent fines, penalties and assessments levied by tax authorities. Complying with these requirements may prevent costs stemming from retroactivity and corrected Forms W-2.

CONTACTS

For assistance with personnel or payroll related matters, agencies/campuses can contact the Customer Contact Center via phone at (916) 372-7200. For questions regarding the Special Accounting Period (SAP), please contact John Ochoa at jochoa@sco.ca.gov.

MR: AR: JO: TSS

Attachment

ATTACHMENT—SAMPLE LETTER TO EMPLOYEES IMPACTED BY SAP

January 4, 2019

Dear State Employee,

The Internal Revenue Service (IRS) allows employers to adopt a Special Accounting Period (SAP) for reporting **non-cash**, taxable fringe benefit values. The SAP allows employers to report values received late in one calendar year as income in the following tax year. The SAP reduces late reporting, issuing corrected Forms W-2 and employees filing amended income tax returns.

In January 1996, the State Controller's Office adopted a December through November SAP calendar. Your 2018 Form W-2 will show non-cash values reported by your employing agency or campus that you received in December 2017 – November 2018.

NON-CASH, TAXABLE FRINGE BENEFITS

Under the SAP, the following non-cash taxable values are affected:

Value of State Housing	Lottery Sales Recognition
Educational Assistance Program	Rideshare Incentive Award Program
Dues and Memberships	Personal Use of State Vehicle
Loan Assumption Program	Car/Vanpool
Group-Term Life Insurance (Legislators)	Forgivable Loan/Doctoral Incentive Program
Loan Forgiveness Program	Tickets
Out-Placement	Merit Award Program (non-cash)
Scholarships (Fee Waiver Program)	Commuter Highway Vehicle
Vehicle Provided by Third Parties	Uniform Allowance
Miscellaneous Incentive Program	Discount Travel/Transit Pass (non-cash)
Overtime Meal Compensation	Electronic Devices
(i.e., Meal Tickets)	Incentive Provided by Third Parties (non-cash)

IRS REQUIREMENTS

The IRS **requires** that employees use the same accounting period (December through November) when filing tax returns. Employees who itemized deductions related to non-cash, taxable values received in December 2018 would report these values in the following tax year (2019).

QUESTIONS

If you have any questions regarding the SAP, please contact your Human Resources or Accounting Office. **Contact your tax advisor or the IRS regarding tax-filing questions.**